



2302 Great N. Drive
Fargo, North Dakota 58102
(701) 241-8632
dave.sederquist@xcelenergy.com

July 9, 2015

VIA FEDERAL EXPRESS AND EMAIL

Mr. Darrell Nitschke
Executive Secretary
North Dakota Public Service Commission
State Capitol Building – 12th Floor
Bismarck, North Dakota 58505

RE: REQUEST FOR APPROVAL OF DEFERRED ACCOUNTING FOR COSTS RELATED
TO THE INVESTIGATION AND CLEANUP OF A FARGO MANUFACTURED GAS
PLANT SITE
CASE NO. PU-15-_____

Dear Mr. Nitschke:

Northern States Power Company – Minnesota, doing business as Xcel Energy (Xcel Energy, or the Company), submits this Petition for approval of deferred accounting procedures to record the North Dakota portion of investigatory, legal, and remediation costs relating to a manufactured gas plant (MGP) site that records indicate was previously operated by the Company or prior companies in the city of Fargo, North Dakota. Establishing deferred accounting at this time to capture the costs of remediation will enable the Company and Commission to consider various options for cost recovery in the future, when the project is nearing completion and/or final costs can be determined. Xcel Energy also proposes deferred accounting treatment for any insurance proceeds realized that are related to the Fargo MGP site.

Rationale for Request

The expenditures incurred to investigate, monitor, litigate, and mitigate or remediate an MGP site are above and beyond both what the Company has budgeted for normal utility operations and what was reflected in the costs of

service to set current rates. These unusual and non-recurring expenditures are most appropriately accounted for using a regulatory asset (a deferred debit account) created in accordance with Generally Accepted Accounting Principles. Ultimately, the total costs recorded would be amortized over a period of years as an expense and matched with corresponding recovery revenues, to be determined in a separate proceeding.

At this time, the Company has not determined when it will seek approval to amortize and recover the costs of investigating and remediating this site, nor has it determined the total cost or what recovery mechanisms it may propose. However, a reasonable assumption is that the investigation phase of the project could be completed in 2016 (the timing is not fully in the Company's control since the land is owned by other parties). The start, duration, and extent of remedial activities, if any, is dependent on several factors including, for example, site access, investigation results, and future site development plans.

At the completion of the investigation phase we should be able to estimate the total amount of deferred costs and propose a mechanism that could be effective the following year. Based on the Company's experience with the \$4.0 million remediation of the former MGP site in Grand Forks in the late 1990's, we expect the scope of investigatory and remediation activity and the related costs of this project to be similar and possibly greater¹. Without deferred and amortized accounting treatment, Xcel Energy's natural gas financial statements would be severely and unusually impacted by the unmoderated expense impact.

We note that the deferred accounting and cost recovery approach approved by the Commission for the Grand Forks MGP clean-up project was effective and potentially represents one of the viable options for this project. The Commission may recall that, for the Grand Forks project, the Company was authorized to establish an eight year amortization of costs and implement a temporary recovery mechanism using the existing Cost of Gas Rider. The process allowed for a thorough review by Staff of the expenditures prior to recovery, and the surcharge was automatically eliminated once the amortization was completed.

¹ At this point in time, the in-depth assessments required to properly determine the scope of the investigation and clean-up effort have not been conducted. However, a general assessment of the location, nearby infrastructure, and other factors indicates a similar or potentially larger project than that completed in Grand Forks over 15 years ago.

Fargo Site History

Based on our preliminary investigation to date, we understand that the Fargo, ND MGP produced gas from coal for retail heating, cooking, and lighting in the city of Fargo from the mid-1880's (and also the city of Moorhead, MN beginning in 1914) to around 1960. The plant was located on the north side of the Northern Pacific Avenues (NP Avenue) just west of downtown Fargo, between University Drive and 11th Street North. In the years since the plant was taken out of service, the facilities were removed to at least grade level and sold to private parties. One parcel to the west of 12th Street North was sold in 1966 and was redeveloped into a commercial building. The main plant site was sold in 1969 and was redeveloped into a residential apartment building.

In 2015, the City of Fargo began a full reconstruction of NP Avenue. Several abandoned MGP distribution pipes were located within the street project corridor. These MGP pipes were in-conflict with the underground utility work required for the reconstruction. In early May, the Company excavated a test trench to confirm the location of the pipes for eventual removal. During that excavation, tar and odors were encountered in the soil near the pipes. We notified the North Dakota Department of Health and the City of Fargo on May 7th, 2015.

Remedial Investigation

The initial project focus was to remove the former MGP piping in the area of the City's NP Avenue project. However, soon after we began removal of the pipes in early June, we encountered soil conditions that increased the scope of the project and gave rise to the potential for a broader investigation. Based on the information gathered in the field, it was evident that further environmental investigation in and around the area would be necessary.

Preliminary cost estimates to remove the pipe under the street and support the immediate City utility work appear to be on the order of \$500,000², but this amount does not include any additional environmental assessments for the MGP plant site itself or surrounding areas. Additional assessments will be conducted

² Some of this cost, related to the removal of pipe, may not be deferred as a clean-up cost but instead will be capitalized as a removal expense. The majority of the cost pertains to the removal and disposal of the soil and environmental assessment in the street corridor.

next to determine if any future potential remediation or monitoring might be necessary.

Xcel Energy personnel from various departments including Environmental Services, natural gas engineering and operations, legal, regulatory, accounting, community relations, and risk management are being formed to develop work plans and schedules for the overall investigation project. We are also working with the City of Fargo and North Dakota state agencies in this effort.

Potential MGP By-Products and Contamination

The production of coal gas can result in substantial quantities of by-products including complex mixtures of coal tars, ashes, lampblack, sludges, and spent purifier wastes. While these materials generally had some commercial value and were sold, some of these products may have been spilled at the site or may be contained in infrastructure such as gas holders and pipes. Chemical constituents of coal tar include volatile organic compounds (VOC's), phenolics, and polynuclear aromatic hydrocarbons (PAH's). Specific constituents of concern that are often associated with coal tar include benzene, xylenes, and naphthalene.

Projected Cleanup Costs

Full investigation and remediation cost estimates have not been finalized at this time, but in comparison to what the Company encountered at the Grand Forks site in the late 1990's, the Fargo site is in close proximity to buildings and infrastructure and will involve more access and logistical considerations.

Based upon the very preliminary information we currently have and the Company's previous experience with other MGP sites, we estimate that, in addition to the \$500,000 forecasted for the assessment and removal of the pipe and soil under NP Avenue, potential immediate mitigation and further investigation of the site is estimated to be an additional \$1.7 million dollars. This may include environmental sampling, records reviews of the MGP site and vicinity, and other limited site investigatory actions, feasibility studies, and development of a remedial action plan.

The breakdown of costs is summarized below:

Activity	Cost	Year
MGP Pipe, soil removal and assessment along NP ave.	\$500,000	2015
MGP site assessment, possible mitigation and potential legal fees	\$1,700,000	2015-2016
Potential remediation and , mitigation. and monitoring activities. (Scope is dependent on results from the assessment)	\$TBD	2017 or later

Insurance Recovery

The Company will make prudent efforts to recover applicable MGP remediation costs, including legal fees in connection with the insurance recovery effort, from its insurance companies and other potential responsible parties (if any). We have already notified AEGIS of a claim for this site. Xcel Energy, however, cannot predict the likelihood of such insurance recovery. The Company has had some success settling insurance claims for MGP sites located in Minnesota and Wisconsin. How the Company will be able to recover from insurance under North Dakota law is yet to be determined. The insurance proceeds associated with previous Minnesota and Wisconsin sites were also placed in a regulatory asset account and remained there until an appropriate rate proceeding, where both costs and insurance recoveries were reflected in the amortization included in rates.

Proposed Accounting Procedures

Xcel Energy proposes to accumulate the North Dakota allocation of costs we incur to investigate, monitor, litigate, and mitigate or remediate any environmental concerns related to the Fargo MGP site in FERC account number 182.3 (Other Regulatory Assets) for costs incurred as of May 1, 2015³. The Company proposes to use, at least initially, the split of natural gas sales between the cities of Fargo, ND and Moorhead, MN to determine the state allocation of costs. However, the Company is reviewing historical records and MGP pipeline maps to determine if there is a more representative allocation basis, and if so will work with staff to finalize the factors and true-up the jurisdictional costs accordingly.

At a future date, Xcel Energy will seek Commission authority to amortize the deferred Fargo MGP costs recorded in Account 182.3. This could occur in the

³ Reflects starting point after which material costs began being incurred.

next Xcel Energy natural gas general rate case, or in a separate recovery filing if the proposal involves the temporary use of a rider, such as the Cost of Gas Rider. The Company intends on working with Commission staff to determine the most acceptable approach to propose.

Again, Xcel Energy believes that it would be inappropriate to expense these costs and record insurance recoveries as they occur due to the nature and materiality of the project. The investigation and remediation of the former Fargo MGP site is non-routine, significant in scope, and not representative of normal operating and maintenance expenditures. Deferred accounting treatment and subsequent amortization of these costs will result in the appropriate Commission review and recovery of these costs.

Impact on Rates

Establishing deferred accounting for the Fargo MGP project will not affect retail natural gas rates in North Dakota. Rates will not be impacted unless and until these costs are reviewed and an annual amortization is approved for rate recovery in a future proceeding. The Company commits that it will not request that any unamortized balance of deferred expenses be included in rate base in any future filing.

At the suggestion of Commission Staff, the Company is willing to establish an “interim” amortization beginning in 2015 to mitigate the future rate impacts of this project. The interim amortization would not require an increase in rates, but instead would be funded by the Company’s existing natural gas earnings sufficiency in the state. Such an approach would reduce the balance of deferred costs that would ultimately be amortized and recovered in the future once project costs have been finalized. Under this approach, the Company and Staff would agree on a temporary amortization amount that could be adjusted if needed, and that would not create an ongoing earnings deficiency.

Conclusion

Xcel Energy respectfully requests the Commission authorize the Company to use deferred accounting as proposed for Fargo MGP investigation and remediation costs, including legal fees, incurred on and after May 1, 2015, and develop an “interim” expense amortization funded by existing earnings until such time that project costs are known and an amortization schedule is in effect. Future recovery

Mr. Darrell Nitschke

July 9, 2015

Page 7 of 7

of these amortized costs in either retail natural gas base rates or a rider would remain subject to Commission review in a future Xcel Energy general rate case or other recovery request proceeding.

If you have any questions concerning this request, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "David H. Sederquist". The signature is written in a cursive style with a large initial 'D'.

David H. Sederquist
Sr. Regulatory Consultant
Xcel Energy – North Dakota

cc: Mike Diller